

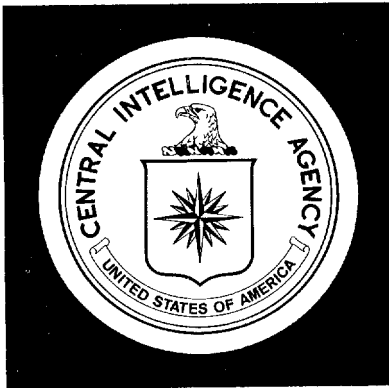
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Weekly Summary

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November 12, 1976

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary, []

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Middle East**LEBANON** 1-2

Syria took its first steps this week to carry out the cease-fire provisions endorsed at last month's Arab summit in Cairo. Syrian army units, in their role as the principal component of the enlarged Arab League peacekeeping force, moved on November 10 into the Christian and Muslim suburbs of Beirut and took up positions near the airport and in the hills overlooking the Christian port of Juniyah. The Syrian moves secured their control over the main north and south access routes to the capital.

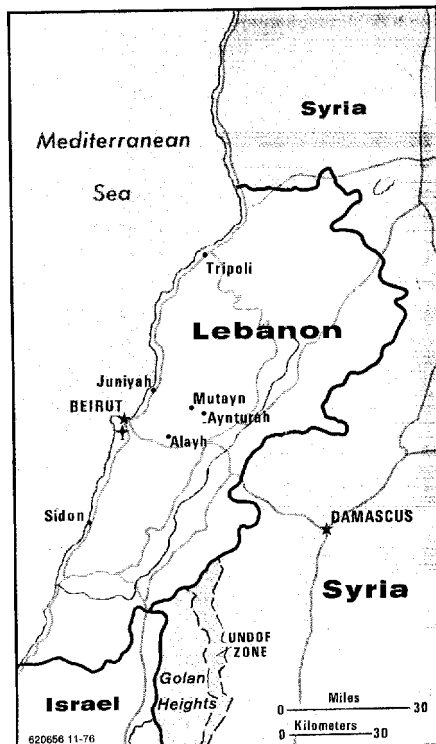
The Syrians are expected to enter west Beirut soon and to begin to fan out from the capital to open up the Sidon-Beirut and Beirut-Tripoli roads. Earlier in the week, Syrian forces gained control over some key road junctions in the central mountains, occupying positions near the leftist stronghold of Alayh on the main

Beirut-Damascus highway and within the much fought over Christian villages of Mutayn and Anyturah.

Both Christian and Muslim militias have complied with orders from their leaders to pull back in the face of the Syrian advance, but are stockpiling their heavy weapons to avoid confiscation. Palestinian guerrillas and Lebanese leftists are reportedly also stockpiling their heavy weapons.

None of the combatants is prepared to give up their weapons voluntarily. They do not trust each other or the Syrians and are afraid that they would weaken their bargaining position by handing over their weapons before negotiations over Lebanon's future have even begun.

The Syrians thus face the prospect of having at some point to disarm these groups by force or of policing an armed truce that could deteriorate again and jeopardize Syrian efforts to restore political stability. For the present, the Syrians are likely to move cautiously, hoping first to limit these groups' access to outside sources of resupply. In that way, Damascus probably hopes to disarm these groups one at a time, eliminating some of them, thereby leaving the Lebanese little choice but to seek a political solution.



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President Sadat discusses new cabinet with Prime Minister Salim (c) and Vice President Mubarak

EGYPT

6-8

President Sadat and Prime Minister Salim announced a cabinet shuffle on November 9 following receipt of parliamentary election returns giving the pro-government slate a large majority. The cabinet reorganization may help to strengthen the management of Egypt's shaky economy; no significant portfolios outside the economic sector were affected.

Final returns in the parliamentary election—held initially on October 28 with a runoff on November 4—give the pro-government organization within the Arab Socialist Union 280 of the 342 elected People's Assembly seats. Members of the Arab Socialist Union's leftist organization took only two seats; candidates of the rightist organization won 12. Independents running outside the sponsorship of any Socialist Union group won 48 seats.

Probably a sizable number of the independents will take an opposition stance. No serious challenge to government policies is expected from the new Assembly, but it may not be as easy to

manipulate as were its predecessors.

The new cabinet will bring prominent economist Abdul Munim Qaysuni to the newly created post of deputy prime minister for financial and economic affairs—a portfolio that will give him overall supervision of the large number of ministries dealing with economic matters. These have previously reported directly to Salim, who has no economic background and little feel for Egypt's economic needs.

Qaysuni—who originally formulated the economic liberalization policy that Sadat instituted a few years ago—will retain the chairmanship of two banks and may thus not have adequate time to watch over the economy. On the other hand, the two key economic ministries have gone to Qaysuni proteges, and this may help assure more centralized and competent direction of economic affairs without his direct oversight.

Qaysuni has a long-standing reputation as a capable economist and may be able to attract back into government service some of the reputable Egyptian economists who have left over the years.

IRAQ-USSR

12:15

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The Iraqi air force expects to receive some MIG-25 Foxbat aircraft from the USSR, according to [redacted] the US interests section in Baghdad.

[redacted] Iraq has therefore decided not to purchase Mirage interceptors from France. A deal for about 50 Mirages had been under discussion for more than a year.

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[redacted] Iraq fears that buying high-performance aircraft from a Western supplier at this time might upset its relationship with the USSR. Iraq reportedly is also concerned that France may prove an unreliable supplier in time of crisis, such as another Arab-Israeli war.

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The Soviets have not yet exported the MIG-25, and Egypt is the only country outside the Warsaw Pact in which Foxbats have been based. Several Foxbat reconnaissance aircraft were temporarily sent to Egypt in 1970 and again during the Middle East war in 1973, but they were flown only by Soviet pilots and remained under Soviet control.

The USSR has not given Iraq

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everything it wants in types and quantities of military hardware, but the Soviets have demonstrated the high priority they place on relations with Iraq by supplying military equipment that had not previously been exported.

Iraq was the first country to receive the TU-22 medium bomber and the Osa II guided-missile boat. Iraq also has more MIG-23 Floggers than any country outside the Warsaw Pact. The Iraqi government evidently hopes that, because the recent defection of a Soviet pilot with his MIG-25 to Japan has given the West detailed information about the plane's capabilities, the USSR will now be even more forthcoming toward Iraq.

If Iraq does receive the MIG-25, it would be many months before the country would have sufficient personnel adequately trained to fly and maintain the aircraft. We have no reports that such training is under way. Even after the Iraqis are trained, a Soviet contingent would probably be necessary to help operate and maintain the Foxbats.

IRAQ

9-10

Kurdish guerrilla activity in northern Iraq appears to be increasing somewhat as winter sets in—a time when government troops are at a disadvantage in the rough terrain. The rebels' main area of operations has now expanded from western Iraq to the mountainous territory near the Iranian border, scene of the heaviest fighting during the full-scale Kurdish rebellion two years ago.

The present, limited Kurdish insurgency is not the work of the followers of Mulla Mustafa Barzani, who fled to Iran after the collapse of their rebellion in March 1975 and who are apparently still held in check by the Shah. The guerrillas now active are members of leftist Jalal Talabani's Kurdistan National Union, which is based in the border area of northeastern Syria.

The upsurge in activity by the Talabani Kurds over the past few months suggests that Syria may have encouraged them in retaliation for Iraq's military buildup along the Syrian border last June.

Any strengthening of Kurdish guerrilla capability will to a great extent depend on whether the Syrians decide to increase their support to the estimated 3,500 Iraqi Kurds based in Syria.

Iraqi strongman Saddam Husayn is treating the resurgence of rebel activity as a politically sensitive matter. The Baghdad press has not acknowledged either the rash of rebel attacks against military and police forces since June or earlier Kurdish-instigated sabotage operations in Iraqi oil fields.

Baghdad probably recognizes that its recent policy of resettling Kurds in areas remote from their tribal homelands has created recruits for the Kurdish guerrilla organizations. Tribesmen dispersed to the south—an estimated 50,000—are reportedly neither adjusting to the warmer climate nor being accepted by their Arab neighbors. Saddam Husayn implicitly acknowledged the failure of the resettlement policy by abruptly ending it last July, but by then large segments of the Kurdish population had been antagonized.

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Far East

CHINA-USSR

30-32

China marked the 59th anniversary of the Russian Revolution in a routine fashion this week with a restrained message of congratulations—the first public message to the Soviets since Chairman Mao's death—and low-level protocol appearances at official functions in Peking, Moscow, and at Soviet embassies abroad.

The message broke no new ground, stating the Chinese people's support for "defending the path" of the October Revolution and, as in the past, asserting that differences of principle should not stand in the way of normal state relations.

The note did not, however, repeat last year's call for settling the long-standing border dispute between the two countries, a sign that China is in no mood to take up this complicated question, at least for the time being.

Peking's top diplomat in Moscow sat through the Kremlin's annual reception for the first time in several years, apparently because Politburo member Kulakov's comments on Sino-Soviet relations did not contain the sharply worded criticism of China that had prompted Chinese walkouts in the past.

Vice Foreign Minister Yu Chan, who again this year was China's highest ranking guest at the Soviet embassy ceremony in Peking, reportedly stayed longer than usual for a "sharp exchange" with Soviet Ambassador Tolstikov. The Soviet diplomat told US officials later that Yu

had reiterated standard Chinese positions on Sino-Soviet relations and implied that Moscow does not anticipate any early change in Peking's policies toward the Soviet Union.

Soviet commentary on China at anniversary celebrations in Moscow was in keeping with the ostensibly conciliatory stance the Soviets have adopted since Mao's death. In his Kremlin speech, Kulakov reiterated Moscow's desire for the restoration of good neighborly relations in line with "the principles of proletarian internationalism." In his discussion of Soviet relations with other communist countries, he gave China a higher precedence than it has had in recent years. On the anniversary itself, Defense Minister Ustinov did not mention China at all; last year Grechko did.

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Africa

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NAMIBIA 25-29

Some sensitive political issues that Prime Minister Vorster has previously avoided may be brought to a head soon at the multiracial Namibian constitutional conference, which began one of its periodic plenary sessions this week in Windhoek, the territorial capital.

The session will consider a resolution, adopted by the conference's constitutional committee two weeks ago, calling for creation of a multiracial interim government within a few months to manage the

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transfer of functions from the existing territorial administration to an independent Namibian government. A target date for independence of December 31, 1978, was proposed by the constitutional committee last August.

Both the proposal for a target date and the call for an early interim government were intended to gloss over disagreements among the 11 delegations to the conference; the delegations represent the whites and the 10 nonwhite ethnic groups inhabiting the territory.

The white group and Pretoria apparently want Namibian independence under a loose federal system that would enable the whites to maintain control of Namibia's mineral resources even though they compose only 12 percent of the population. Most of the nonwhite delegations, on the other hand, want a central government responsive to the nonwhite majority to have ultimate control of the territory's natural resources.

The nonwhite delegates are unlikely to accept any interim arrangements that tend to perpetuate the existing ethnic homelands without making a start toward setting up a strong central government.

Vorster has said that his government will consider favorably any draft constitution or interim recommendation that is adopted by a plenary session of the conference. He may be so anxious to avert a collapse of the conference that he will go further toward accommodating the nonwhites than he previously intended. So far, however, he has not clearly backed the lone moderate member of the white delegation, who has served as mediator between his hard-line colleagues and the nonwhite delegates.

ANGOLA

28-29

Angolan President Agostinho Neto is assuming the functions of prime minister, thereby becoming head of government as well as chief of state and party leader of the Popular Movement. This announcement was included in a lengthy statement



President Agostinho Neto and party chief Brezhnev exchange Soviet-Angolan documents following signing in October

issued after a recently concluded central committee plenary session. No new position has been announced for former prime minister Nascimento.

The statement also sets forth a broad-ranging program for Angola's political and economic development that carries a strong Marxist thrust, calling for goals to be pursued in the context of "scientific socialism." This follows Neto's signature in Moscow last month of a Soviet-Angolan "friendship treaty" and a party-to-party agreement.

The new program and Neto's enhanced status may have constituted a package put together to accommodate factional differences within the Popular Movement. Some elements of the program differ considerably from policies that Neto earlier espoused.

Heretofore, Neto has been identified with efforts to broaden Angola's economic and political ties with the West and to follow a policy of nonalignment. The statement includes references to such policies, but places heavy stress on Angola's special relations with the USSR

and Cuba.

In the economic sector, the new program calls for strong state control over the economy through nationalization and centralized planning. Provision is made for a private sector, but it is to be subjected to strict controls. Until now, the Angolan government has appeared anxious to maintain Angola's access to Western markets and technology.

The Popular Movement is charged with a major role in mobilizing popular support for the regime. It will have direct authority over all mass organizations and will assume the functions of the information ministry, which is to be abolished. It is possible that other changes in the structure of the government may be in the offing. Rumors to this effect have been circulating in Luanda since Neto returned from Moscow.

The central committee also approved a five-year plan for reorganizing and upgrading the country's armed forces. This will undoubtedly be carried out under Soviet and Cuban direction.

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ing Brezhnev's 1971 visit, he offered a \$540 million development credit, but only a little of it has so far been used. Belgrade is not likely to make fundamental changes in its independent foreign policy, nor do the Soviets expect any.

Several leading Yugoslavs have expressed their concern that the 84-year-old President has grown increasingly susceptible to Brezhnev's cajolery. They fear he may grant the Soviets greater access to Yugoslavia's naval facilities on the Adriatic.

The last bilateral visit between the two leaders took place three years ago in Kiev. Since then, relations were soured by Yugoslav apprehensions about Soviet support for Yugoslav subversives. Although trials of the major pro-Soviet "Cominformists" ended last July, the Yugoslavs will press Brezhnev to reaffirm public Soviet promises of noninterference in Belgrade's internal affairs. Brezhnev will make this gesture, but the Yugoslavs, in light of their past experience, will take these assurances with a grain of salt.

USSR-YUGOSLAVIA ³⁹⁻⁴⁰

Yugoslav President Tito and Soviet party leader Brezhnev will probably seek to stabilize further the often mercurial relationship between their countries when they meet in Yugoslavia on November 15, 16, and 17.

The task will not be easy, primarily because of ideological differences and a deep-seated mutual distrust. The Yugoslav press, for example, is now trumpeting Belgrade's independent course in world affairs and its espousal of polycentrism in the communist movement. Moscow, on the other hand, wants the Yugoslavs to help advance the idea of a "socialist community" by more openly and consistently supporting Soviet goals.

A Soviet diplomat in Belgrade recently admitted that one of Brezhnev's tasks will be to try to get Yugoslavia to mute its polemics against the USSR. Comments from members of the local diplomatic community suggest that the USSR—Yugoslavia's largest trading partner—will offer economic incentives for increased Yugoslav cooperation. Dur-

Brezhnev expressed confidence that despite "tricky problems" Warsaw would successfully implement its programs.

Gierek emphasized Poland's close and growing cooperation with the USSR and Poland's contributions to the strength of the socialist community. The official talks were concluded on November 10 with the signing of a joint declaration on cooperation.

No details have been released yet on what the Soviets are prepared to do to ease Poland's current difficulties. A Polish diplomat had indicated earlier that "significant" economic agreements would be signed, and a Soviet diplomat in Warsaw had asserted that the Poles will get 90 percent of what they want. These agreements were probably hammered out during a visit to Moscow by Prime Minister Jaroszewicz on October 22.

USSR-POLAND ^{N.S.}

Soviet party leader Brezhnev has given his personal endorsement to visiting Polish party chief Gierek, who is leading a party-state delegation on an official week-long visit to the USSR. Gierek is seeking a public show of Moscow's political and economic support at a time when his regime is being severely tested at home.

In a Kremlin speech on November 9, Brezhnev referred to Gierek as the "true son of People's Poland," an "eminent statesman" of the international communist movement and a great friend of the Soviet Union. He endorsed Gierek's policy of "radical modernization of all Polish industry" and implied that Moscow would give some additional help.



Edward Gierek

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Western Hemisphere

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52-59

Andean Pact: Chile Withdraws

Chile's withdrawal from the Andean Pact on October 30 will open new economic opportunities but at the cost of losing some privileges it enjoyed under the pact with Bolivia, Colombia, Ecuador, Peru, and Venezuela.

Unfettered by Pact restrictions, Chile is now free to reduce tariffs and to court direct foreign investment on any terms it can get. Chile wants foreign capital and cheaper imports to increase economic growth and to help reduce inflation. As a price of withdrawal, Chile forfeits future exclusive manufacturing rights for supplying the member countries under the Pact's petrochemical and light engineering programs.

A joint Andean Pact - Chilean committee has been established to oversee Chilean cooperation with the Pact in

production, trade, finance, and technology. Chile has agreed to implement the planned Andean road transportation system and to honor Pact policies promoting local multinational enterprises. Chile's access to loans from the Andean Development Corporation will not be affected.

Chile believes its economic and political interests can better be served by association with the River Plate Basin countries—Argentina, Bolivia, Brazil, Paraguay, and Uruguay. Over the past three years, Chile's trade with these nations has been twice that of its trade with the Andean Pact countries, excluding Bolivia, a member of both groups. Chile has already accepted observer status in the River Plate Basin Group.

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Europe

GREECE-TURKEY 64-65

Talks between Greece and Turkey over control of the Aegean continental shelf and airspace have so far been moving smoothly. The negotiators are still skirting the most important aspects of both controversies, however, and the Greeks, who feel buoyed by the US election results, may now be more inclined to stall on the most important issues.

In the continental shelf talks, which began in Bern on November 2, the two sides are moving toward an agreement to establish a committee of experts to formulate procedures for substantive negotiations. According to a Greek Foreign Ministry official, this agreement will be referred to the Greek and Turkish foreign ministers for approval, probably when they meet at the NATO ministerial meetings next month. The experts would commence their work thereafter.

The airspace talks that are going on simultaneously in Paris have produced an agreement to establish a hot line between the Greek and Turkish air defense centers. Each side has also agreed to provide the other with schedules of its military exercises in the Aegean six months in advance. The negotiators have yet to agree, however, on terms for the advance notification of military flights over the Aegean. This has been the main block to a settlement in previous consultations.

The Greeks, who only reluctantly agreed earlier this fall to direct negotiations on the continental shelf dispute, seem to believe that the new US administration will be more responsive to the Greek position on the Aegean and also on Cyprus. They may therefore be more inclined than before to resist Turkish demands, or at least to stall on the substantive questions.



Party leader Enver Hoxha

ALBANIA 66-67

Party leader Enver Hoxha last week set a firm course of continued isolation and self-reliance at the Albanian Communist Party's seventh congress. The country's serious economic problems, however, apparently dictated several personnel shifts and a note of cautious pragmatism regarding foreign economic contacts.

At the national level, the leadership of Hoxha and Premier Mehmet Shehu appears as entrenched as ever, and the size of the Politburo remains at 12 full members. The number of candidate members on the ruling body was expanded to five and includes two new faces.

The new candidate Politburo members are Lenka Cuko and Simon Stefani. They typify the sort of young party leaders with technical backgrounds and proven administrative ability on the district level that Hoxha has advanced in recent years. Stefani has a strong economic background. Additions to the Central Committee include the new ministers—such as education and agriculture—who figured prominently in Hoxha's apparent efforts in recent years to rejuvenate the Albanian party hierarchy.

Hoxha delivered a marathon 14-hour speech—spaced out over two days—that vigorously defended his leadership. Appealing to the strong sense of nationalism inherent in the Albanians, Hoxha proudly boasted that Albania's isolation protected the country from “the invasion of enslaving credits, tourists and spies, and decadent culture and degeneration.” These assertions did not keep him from declaring Albania's intention to pursue economic and commercial ties with the West.

Acknowledging the strong role played by China in assisting Albania's economic development, Hoxha was nonetheless somewhat reserved, and his remarks probably reflected his uncertainty about recent developments in Peking.

Hoxha's comments on foreign policy included the predictable denunciation of everything the USSR stands for and enthusiastic praise for progress in Albanian-French relations. His remarks on the Balkan countries broke no new ground, and his continuing, adamant condemnation of the nonaligned movement will not sit well with China, which has been urging Albania to adopt a more accommodating course.

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China's new leaders are pragmatic men, keenly aware of the importance of foreign trade and technology to the country's modernization program. Long-standing economic problems, which had been entangled in political struggles for years, may now be more susceptible to solution.

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China: Economic Policy

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Hua Kuo-feng

power than they have had in over a decade and removes a major obstacle to solving economic problems that had become inextricably entangled in the political struggle.

Legacy of 1960s

The wholesale purge of veteran administrators during the cultural revolution from 1966 to 1968 created such animosity and so fractured the Chinese leadership that consensus on economic policy became all but impossible. Peking has since been faced with a growing list of unresolved economic problems: structural imbalances in industry, bottlenecks in transport, lagging labor productivity, and slow agricultural growth. Some problems—notably in agriculture—were addressed in the fourth five-year plan (1971-1975), but most were dealt with in a temporizing fashion.

In early 1975, Chou En-lai—in his last major address—announced a 25-year program aimed at the modernization of agriculture, industry, national defense, and science and technology. As Chou's health deteriorated, the task of overseeing this program fell to Vice Premier Teng Hsiao-ping, who had just been rehabilitated after being a victim of the cultural revolution.

The program ran afoul of leftist attacks on Teng, however. By April 1976, the leftists had succeeded in banishing Teng from all positions of authority; Hua Kuo-feng took over as China's chief administrator. Meanwhile, the fragile con-

sensus of early 1975 disintegrated, and drafting of a new fifth five-year plan (1976-1980) was postponed.

Apart from firming up the five-year plan, the two items of immediate concern to the new Hua regime are the role foreign trade is to play in China's economic development and the extent to which greater material incentives are needed. There also are decisions on the revitalization of scientific and technical education and research and the degree of centralization in planning and management.



Li Hsien-nien

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The shakeup of China's top policy makers last month greatly increases the chance of early moves to solve long-standing economic problems.

Should Chairman Hua Kuo-feng relinquish his post as Premier, as is likely, Vice Premier Li Hsien-nien is the most logical replacement. Li, a long-time specialist in economic affairs, is pragmatic and politically astute much in the mold of the late Chou En-lai.

The ouster of China's most prominent leftists leaves moderates like Li with more

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HSINHLA

New Dynamism

With the moderate faction now dominant, we expect a more dynamic foreign trade policy, emphasizing imports of whole plants and high-technology items. Whether this policy will be pursued as actively as in the early 1970s remains to be seen.

Opposition to greater foreign trade has not come from leftists alone. For example, coal shortages have led to complaints from some ministerial and provincial authorities that exports of crude oil have been excessive and responsible in part for the poor overall showing of the economy in recent years. Since problems with the coal industry are expected to persist, the level of oil exports will continue to be a point of contention, even within the new leadership.

Despite this controversy, China will probably again have to push oil exports.

Foreign Trade Minister Li Chiang, in mid-October talks with Italian trade officials, reportedly acknowledged that "China certainly needs technology"; he went on to say that, although China's raw materials will increasingly be required for domestic industry, "there will also always be a certain share available for foreign buyers." While these statements stop short of a freewheeling trade policy based on oil exports, they point to a return to more liberal trade practices.

The next few months should also bring a greater stress on material incentives, including the prospect of a wage increase for the urban work force. After more than a decade of stagnating money incomes, China's urban workers have in recent years shown a growing dissatisfaction with wages. Serious discontent surfaced in 1974, when worker absenteeism and slowdowns were widespread, and has continued in less dramatic forms in 1975 and 1976 at some cost to economic growth. Peking's divided leadership initially promised action on wage reform; later, under pressure from the leftists, the leaders backtracked and denounced material incentives as "bourgeois."

The inability of the leadership to deal with grievances over eroding living stan-



Posters in Peking rolling stock plant call on workers to increase production in memory of Mao Tse-tung.

dards has been the source of widespread worker ill feeling toward the four ousted leftists. The unprecedented jubilation displayed in the mass demonstrations celebrating Hua's appointment and denouncing the leftists partly reflects a belief that the new leadership will address the economic condition of urban workers.

Whatever wage relief is forthcoming, it probably will be small. A large general wage increase would require a bigger reduction in investment than the moderates would be willing to accept. Even a small wage increase, however, should greatly improve worker morale and increase productivity.

Other Possible Reforms

The new leadership is keenly aware of the importance of scientific and technical

work to China's modernization. The moderates view most policy in education and research since the cultural revolution as impeding progress and believe that more traditional institutions will better serve China's needs.

The moderates are likely to attempt to return leadership positions in science and technology to qualified scientists and engineers, reducing the party's role to that of providing general policy guidance. All leadership factions advocate "self-reliance," but the moderates assert that leftist education changes are destroying the country's ability to develop the human capital that can make China technologically independent.

Reforms in planning and management most likely will deal with inadequate plan-

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ning at the local levels, excessive party involvement in enterprise management, the decline in labor force discipline and productivity, and confusion caused by the sudden proliferation of worker advisory groups.

The moderates will have to proceed with care; many of the cultural revolution innovations are popular. Extending central control to local plants would impinge on the power of local authorities and would run into opposition. Similarly, a

movement back toward "one-man rule" and the enforcement of stronger work rules would encounter worker resistance. 25X1
The moderates will probably first attempt to curb disruptive excesses; stronger action will come later.

Japanese leaders are worried about the slowdown in economic recovery. They seem to be moving toward the adoption of measures to stimulate the economy.

68-90

Japan: Concern Over Recovery

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Japan probably will soon adopt mildly stimulative economic measures as concern increases over the slowdown in economic recovery.

Recent industrial production figures show output down in September for the second straight month; the decline almost certainly continued in October as well.

Consumer spending has been lackluster in recent months. Business investment has not rebounded despite measures taken earlier this year to increase investment by the electric power industry.

Government spending has slowed because of serious delays in implementing rate increases for government monopolies, as well as delays in passing legislation that would allow the government to borrow needed funds.

25X1 Consumer prices are rising faster than the government had anticipated. Prices were up nearly 10 percent in September and October over 1975 levels. Upward pressures will continue because of hikes in public utility rates and railway fares, as well as increases in import prices, particularly for oil. Inflation on an annual basis probably will continue at roughly 10

percent through early 1977; the government had hoped to keep it to 8 percent by next March.

Japan's Ministry of International Trade and Industry recently proposed a reflationary package that would provide loans to increase housing starts by 50,000 units and new funds for business in the form of low-interest loans from government financial institutions.

The ministry also is encouraging the government to promote capital spending by the oil and electric power industries, to lower long-term interest rates, and to assure a continued boom in whole plant exports. Because of concern over worsening inflation, the ministry did not propose increased public works spending, normally Japan's most effective pump-priming tool.

Prospects for Next Year

Without some new stimulative moves, Japanese economic growth could fall short of Tokyo's 5.6-percent target for the year ending in March 1977. Most economists in and out of the Japanese government agree, however, that growth for the 1977 calendar year will be higher than it was this year.

Corporate profits reportedly increased 30 to 40 percent in the April-to-September period over the previous six-month period, making a strong recovery in investment likely for the next year. Inventory accumulation and delayed government spending also should resume in the next few months.

Over the past several years, Japanese industrial production has followed US industrial production trends because of close trade and financial ties between the two countries. If Japan views the US economic slowdown as only temporary, the council is even more likely to adopt only cautious reflationary measures.

The general election, which probably will be scheduled for December 5, adds a sense of urgency to the economic problem. 25X1

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Independence may come to the last European colony in Africa by the middle of next year. The prospect has already heightened the conflict in interests and ambitions between neighboring Ethiopia and Somalia.

71-79

French Territory of the Afars and Issas

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France is moving ahead with plans to sponsor next spring a referendum on independence in the French Territory of the Afars and Issas. This would be followed by the drafting of a constitution and the election of a new government. A transfer of power could take place as early as mid-1977.

There is little room for optimism that the transition will be peaceful or that the independence of the FTAI can be maintained, especially if France decides to withdraw its military forces from the territory.

At first glance it appears France has made some progress in the past few months in reconciling antagonistic political forces and ethnic groups in the FTAI. A widely held sense of nationalism that would contribute to stability when the territory becomes independent has not developed, however. Somalia has not abandoned its historic goal of annexing the FTAI, and Ethiopia remains determined to prevent a Somali takeover. Somalia and Ethiopia are meddling in territorial affairs and could upset French efforts to arrange a peaceful transfer of power.

France's Position

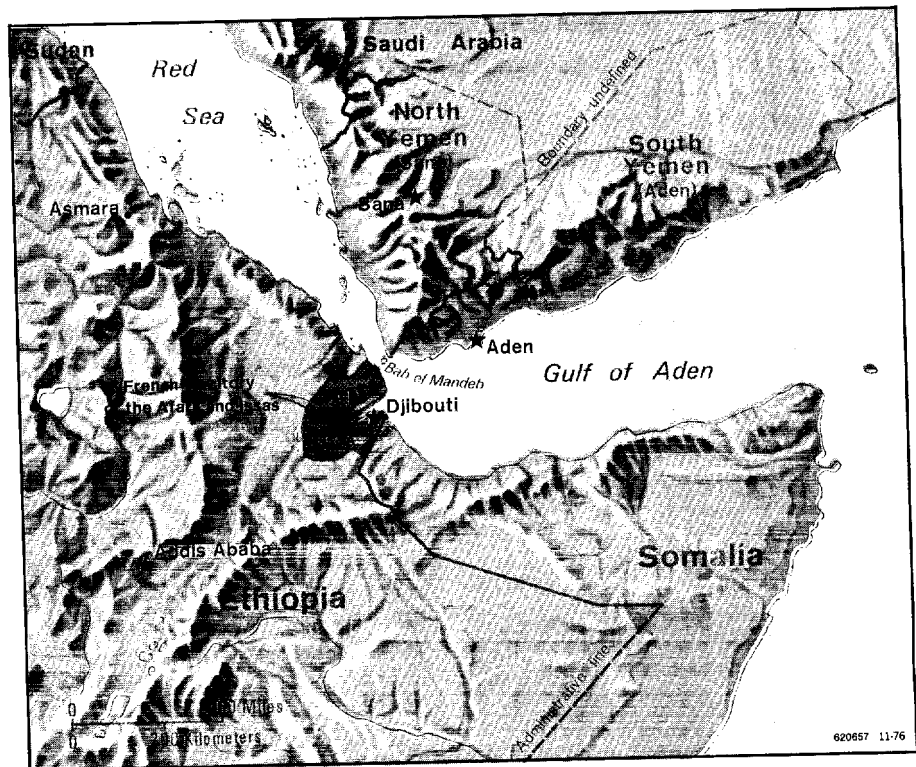
France's primary concern is that the new government of the territory be recognized and guaranteed by the states in the region—at least long enough for France to avoid blame for any conflict

that might arise.

The French government now seems optimistic that the situation will be stable enough to allow it to retain a military presence of some sort in the territory for a while after independence. Officials have told US embassy officers in Paris, however, that they are not yet certain

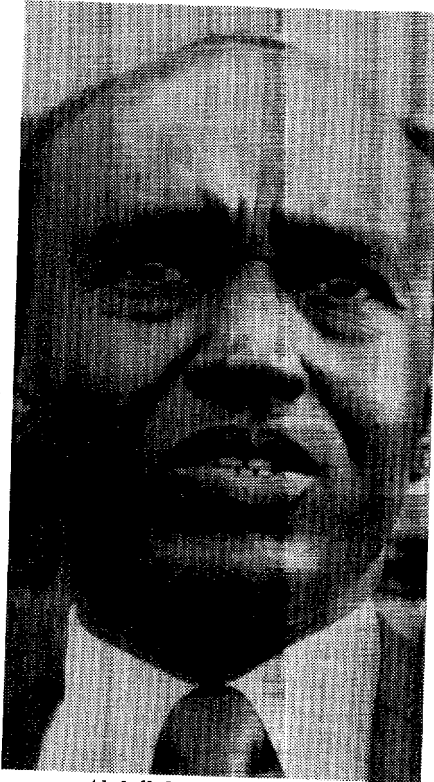
what military arrangements they will be able to make.

Neither the French nor the territory's new government would be likely to press for a large military force. The local government would not want to compromise its independence, and the French are reluctant to commit themselves to its



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*Abdallah Mohamed Kamil*

defense. They especially want to avoid any activity that would risk substantial French casualties.

The French appear to be making plans against the possibility of losing their naval base at Djibouti—the most important one they now have in the Indian Ocean. For example, they recently transferred a maintenance and supply ship from their Atlantic fleet to the Indian Ocean fleet. The ship would augment facilities at the French island of La Reunion if the Djibouti base is closed.

The Territorial Government

Abdallah Mohamed Kamil, who became head of the government in FTAI last July with French connivance, is attempting to rally the territory's contentious political and ethnic groups behind his regime. Kamil is appealing for support from both his fellow Afars and their traditional enemies—the territory's ethnic Somalis, the bulk of whom are Issas.

Kamil's efforts toward ethnic recon-

ciliation are in accord with an agreement providing for greater political representation of ethnic Somalis reached last June between France and the FTAI's three major political groups: The African People's Independence League, the National Independence Union, and a bloc of unaffiliated parliamentary deputies who support the present government. France sponsored the agreement in the belief that a government reflecting the actual composition of the population would be better able to resist Somalia's efforts to annex the territory.

Ethnic Somalis constitute a majority of the population, but restrictive nationality laws and the rigging of elections have permitted the Afars—the long-time French surrogates—to dominate local politics. The agreement called for the creation of a national unity government and for enfranchising additional ethnic Somalis, virtually assuring their dominance after independence.

Kamil, 39, was a high-level civil servant before being hand-picked by the French to lead the government. Kamil's policies appear to be pro-Western. His political savvy and ability to balance the contending forces of the territory's factional politics have yet to be tested.

Kamil has said little about his intentions. In his public statements, he frequently gives the impression that his government intends to hold power only until independence is achieved. On the key question of whether an independent FTAI will conclude military agreements with France, Kamil has said that the decision will have to be made by the post-independence government.

In recent public statements, Kamil has gone out of his way to accuse Ethiopia of meddling in FTAI affairs. At the same time, he has tried to assure Addis Ababa that an independent FTAI will not block Ethiopian access to the port or railhead at Djibouti, a vital Ethiopian interest.

The Ethiopians, who supported Ali Aref, the leader of the National Independence Union, when he was in office and had hoped to work in tandem with France to protect the FTAI's

territorial integrity against Somalia, have sharply criticized Paris' recent moves. They share Aref's belief that French policy—either deliberately or because of misguided assumptions—is playing into the hands of Somalia.

The Ethiopians believe that the Paris accords, and France's support for the Kamil government, are at best based on the false hope that Somalia will support the FTAI's integrity if the Issas are given greater political representation. Ethiopia's suspicions have not been ended by French assurances that Paris is attempting to establish a strong government that will protect Ethiopia's interest in the territory.

League Influence

The African People's Independence League has been the chief beneficiary of recent political developments in the FTAI. The broadening of the Issa franchise will give it even more political power. The League is better organized than the other political groups in the territory; it will probably control the first independent government.

League leader Hassan Gouled, an Issa, is thus widely regarded as having the best chance to head the first post-independence government. He is personally committed to independence, but he has moved closer of late to Somalia and the militant Front for the Liberation of the Somali Coast, a Somali-puppet organization.

Gouled says he has sought Somali support—Somalia has supplied the League with money—only as a means to secure the territory's independence, and he professes to believe the Somali President's assertion that he will support that independence.

Somalia Watching

Somali President Siad has apparently concluded that the recent developments in the FTAI have enhanced the chances of a pro-Somali government coming to power legally. Over the next few months, Somalia will probably continue to support the trends now under way in the territory. It is unlikely to risk initiating terrorism or guerrilla activity until it has a clearer notion of French intentions.

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Siad has been very successful in drawing the FTAI's political groups closer to Somalia. With Somali encouragement, the African People's Independence League, the Front, and the parliamentary supporters of the Kamil government have banded together as the "United Front," the purpose of which is to confront France with a unified position on independence arrangements. Leaders of the three groups met in Mogadiscio in late October, pledged to intensify the "liberation struggle," and agreed to meet again in Djibouti in November to discuss strategy.

Soviet military aid.

The Ethiopians say they have received some assurances from the Soviets, but they consider them "less than satisfactory." In fact, the Soviets' overriding interest in protecting their heavy political and military investment in Somalia allows them little room for accommodating such Ethiopian overtures.

Ethiopia rejects the idea, fostered by France, that key Arab countries can be relied on to restrain the irredentist policies of Somalia, an Arab League member. Ethiopia is aware that most Arab governments support the Eritrean separatists. Addis Ababa is not likely to cooperate even with those Arab countries, like Egypt and Saudi Arabia, that are anxious to keep the FTAI out of the Somali orbit in order to prevent what they believe would be an inevitable expansion of Soviet influence in the area.

The Arabs

Somalia is continuing to improve its own military capabilities. The Somalis may now have up to 8,000 troops in the northwest.

Ethiopian Views

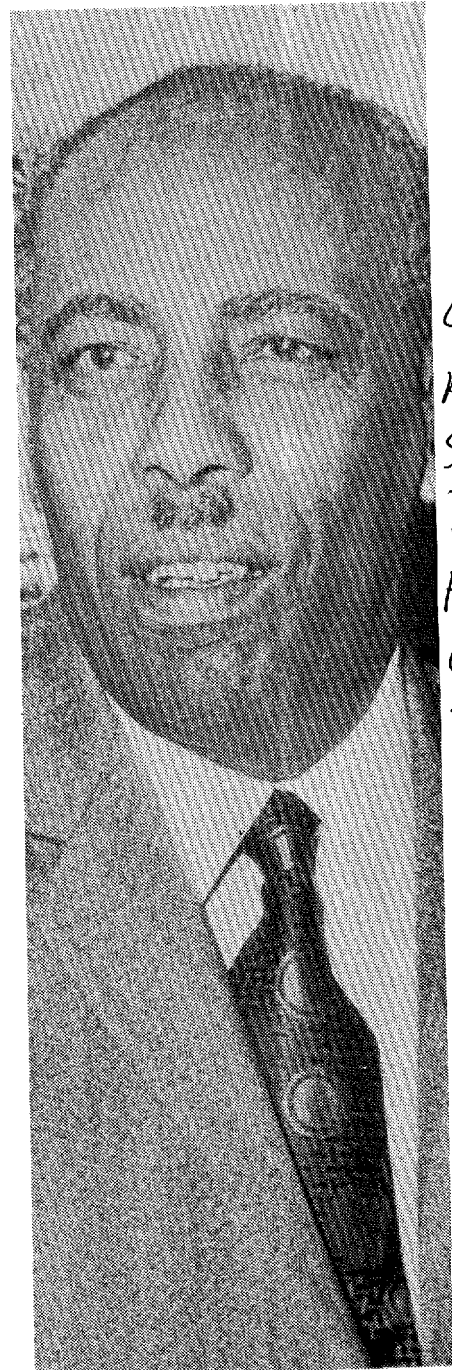
Since the ouster of Ali Aref, with whom Ethiopia closely collaborated, Addis Ababa has seemed resigned to the likelihood of conflict with Somalia over the FTAI. The ruling council has been trying to prepare the public for this eventuality by frequent reminders of traditional Ethiopian-Somali antipathy.

Ethiopia recently has attempted to improve its military capability in border areas. It has equipped armored units there with new M-60 tanks and moved in new units.

Ethiopia's military, however, has been weakened by the continuing guerrilla war in Eritrea and other provinces. Morale and discipline have declined steadily and many of the units along the Somali and FTAI borders are understrength. Ethiopian forces in those areas number about 6,000 men.

Ethiopia has sought to enlist Moscow's aid to restrain Somalia from moving into the FTAI. The hope for such support is one reason Ethiopia has attempted to strengthen ties with Moscow and solicit

guerrilla capabilities at its disposal, will probably be able to manipulate events to its advantage.



Somali President Siad

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A Warsaw Pact summit meeting scheduled for late this month in Romania will give the USSR an opportunity to reassert the "unity" of its views with those of its East European allies.

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Warsaw Pact: Summit Meeting This Month

The Warsaw Pact nations have scheduled a political summit meeting in Bucharest for late November. This will be the first meeting of the Pact's Political Consultative Committee—which convenes at the party-leader level—since April 1974 and the first held in Romania in more than a decade.

Moscow has for some time been trumpeting the virtues of the Pact's political arm as an instrument of East European political unity and cohesion. The Soviets have tried to use the Political Consultative Committee as a mechanism to secure formal, multilateral endorsement of Soviet foreign policy views. In effect, the Soviets use the Warsaw Pact to provide a facade of legitimacy for both Soviet political and military dominance in Eastern Europe.

Within the Pact, the Political Consultative Committee is the leading formal body for political coordination and overall direction of the alliance. The irregularity of its infrequent meetings reveals, however, that it is not the primary vehicle for political consultation among the Pact members.

Although the Committee is supposed to meet semiannually, it has met only 14 times in the 21 years of its existence. The formal nature of its sessions, the requirement for unanimity, and the often contentious nature of the issues under review have all contributed to the Committee's

reduced role. Meetings of the Pact's foreign ministers have been convened only 7 times since 1966.

The Soviets have had to resort to other forums as substitutes for meetings of the Political Consultative Committee. These have included bilateral meetings between party leaders of individual states and ad hoc meetings outside of the Warsaw Pact's formal structure to coordinate foreign policy.

Formal high-level consultation within the Warsaw Pact has been much less intense than in the period before the European Security Conference last year. Before Helsinki, the gatherings of foreign ministers, party first secretaries, and the Committee itself were devoted largely to the general subject of the security conference. Specific differences did crop up during these discussions, but the Soviets managed to avoid substantial disharmony.

There are signs, however, that in the aftermath of the European communist party conference in East Berlin last June, Moscow wishes to reaffirm its control over the other members of the Pact. The USSR gave greater weight last summer than in former years to the bilateral meetings usually held in the Crimea between Soviet General Secretary Brezhnev and East European leaders. This year was the first time since 1973 that all the Warsaw Pact party leaders showed up for separate talks with the Soviet leader.

Preparing for Belgrade Meeting

With the European security and communist conferences now behind them, the Soviet leaders are concerned with preparations for the meeting in Belgrade next year to discuss implementation of the security conference principles. The special emphasis recently given to the role played by the Political Consultative Committee in European security matters suggests that Moscow has obtained broad agreement from the other Pact members to the guidelines it wants adopted in Bucharest.

Differences exist among the East Europeans on the pace of East European compliance with some provisions of the security conference's final document. All indications suggest, however, that the East European party chiefs share a common interest with Moscow in avoiding recriminations at Belgrade and blunting Western criticism of their lack of progress in implementing the conference principles.

Committee meetings normally rotate from capital to capital, and it presumably is Romania's turn to serve as host. Nevertheless, the Romanian willingness to be host at the summit meeting is just the display of fraternal solidarity the USSR wishes to foster. The meeting will enable Soviet leaders to demonstrate to the West that, despite some differences between Moscow and Bucharest over the nature of interparty relations, they can agree on the broad questions relating to European security matters.

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Coordinating foreign policy within the formal political machinery of the Warsaw Pact has frequently been a vexing chore for the Soviets. On the meeting in Yugoslavia next year, however, the interests of the East European Pact members broadly coincide with those of the Soviet Union. Party leaders will probably hammer out a joint statement defending their claim to have fulfilled the Helsinki accords.

Romania's willingness to serve as host for the Political Consultative Committee meeting fits in with the generally conciliatory attitude that Bucharest has recently adopted toward the Soviets. President Ceausescu will probably use this gesture in an effort to convince the USSR that he is seriously committed to easing bilateral tensions.

Bucharest has resisted Moscow's effort to gain greater Romanian participation in the Pact. Since the early 1960s Romania has permitted joint Pact maneuvers on its soil only once—in 1962—and has taken

only a token role in staff and map exercises, usually within a Balkan context.

Ceausescu probably sought Soviet assurances that the Political Consultative Committee agenda would not include controversial topics and that Moscow would not seek to use this forum to discuss Romania's limited participation in the Pact.

Soviet Purposes

Moscow may believe that the Bucharest meeting will be an appropriate forum in which to make a conciliatory appeal to the new Chinese leadership. Soviet leaders would welcome an opportunity to show that they can enlist the support of their European allies under the aegis of the Warsaw Pact in party matters as well.

There are some signs that the USSR might try to revive its proposal for strengthening the Pact's political consultative machinery. Moscow wants to set up a permanent secretariat—similar to NATO's political organization—headed by a Soviet secretary general.

This idea was most recently rejected—reportedly because of Romanian objections—during a meeting of Warsaw Pact foreign ministers in Moscow in December 1975. Bucharest has always been wary of Moscow's effort to establish a permanent supranational Pact mechanism that would speak for Pact members, and it is not likely to alter its long-standing objections.

Bucharest may now, however, be more willing to seek a compromise on the issue. A Romanian party secretary has informed US officials that the summit meeting will consider earlier Romanian proposals such as the establishment of a periodic consultative mechanism at the foreign minister level. This may be an attempt to sidestep a broader Soviet proposal. The Romanian added that the Political Consultative Committee meeting fits in with Bucharest's desire to emphasize the political—rather than military—aspects of the Pact.

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Soviet troops during June 1976 exercise "Sever," the second Soviet exercise announced in compliance with the Helsinki accords.

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